Helen Mercer:

"What's good for Buxted Chickens is good for Britain. How and why have neo-liberal think tanks influenced policy formation in Britain: the case of the IEA and the Resale Prices Act of 1964."

A detailed literature now documents the way since the Second World War free market think tanks such as the Institute of Economic Affairs (IEA) developed ideas, organisational structures and methods of dissemination and influence. Extensive discussion has meant that neo-liberalism has become better defined and its 'hegemonic' power more fully understood (eg Cockett, 1994; Jackson, 2010; Plehwe, 2013; Mirowski and Plehwe, 2009; Mudge 2008). Much of the literature focuses on the intellectual meaning and development of the 'neoliberal thought collective'. Two obvious areas for research have remained relatively poorly-documented, and less well understood and explained. These two areas are firstly the mechanisms by which political influence generally and in specific policy areas has been achieved and secondly, (and certainly for the UK at least) the class or business interests such think tanks promoted, again either generally or in specific policy areas (for exceptions see: Dumenil and Levy, Harvey, 2005; van der Pijl, 1998; Rollings, 2013). This paper studies the mechanisms of influence and the business interests promoted by the IEA in one specific case study – the passage of the 1964 Resale Prices Act. The IEA hailed the abolition of resale price maintenance (RPM) as its first major policy victory, achieved through the timely publication of a pamphlet by Basil Yamey *Resale Price Maintenance and Shoppers' Choice* (Cockett, ; Yamey, 1960). Yamey's economic arguments were weak and his research unsupported[i], yet his major academic opponent – PWS Andrews – was successfully marginalised as a result of IEA influence within business circles and the civil service. Abolition removed remaining barriers to the expansion of multiple retailers in Britain and consolidated the economic dominance of a distinct business 'bloc' consisting of multiple retailers, property developers and financial institutions (Mercer, 2014).

The Institute of Economic Affairs was one of the first organisations spawned by the Mont Pelerin Society (MPS). The MPS takes its name from a town in Switzerland which in 1947 hosted the first meeting of a diverse group of economists who were to form the nucleus of the neoliberal 'thought collective' and represented the well-spring of the web of neo-liberal think tanks we know today. They came from various schools - the incipient Chicago school (although not men like George Stigler and Milton Friedman until later), German ordo-liberalism (the Freiburg school) and Austrian liberals in exile such as Hayek, Wilhelm Roepke and Fritz Machlup, and several British economists including Lionel Robbins (who drafted the first set of aims) and John Jewkes. The main unifying elements in 1947 were opposition to socialism, the welfare state and trade unionism. Their evolving construction of a new version of liberalism was one that replaced 'laissez-faire' as the central doctrine with 'competition', and 'an unadulterated emphasis on the market as the source and arbiter of human freedoms' (Mudge, 2008: 704; Plehwe, 2013). They called for a change in the nature of the state, specifically one which would uphold a 'deliberately constructed competitive order' (Robbins, 1947: 84). This latter position could nevertheless lead to major differences in policy prescriptions in their home countries. The issue of resale price maintenance is a classic example of this: while the IEA served the abolitionist cause in the UK, Chicago School economists were busy defending monopoly, corporations and IRPM in the US (van Horn, 2009). What to the IEA was a horizontal restriction on competition, to Robert Bork was simply a 'partial integration' between firms and 'often more efficient than full integration by ownership or contract' (Bork, 1967:731).

The Institute of Economic Affairs itself was formed in 1955 following extensive association since the 1930s between its founder, a businessman Anthony Fisher, and many of the early members of the MPS, especially Hayek. Its purpose was to educate political elites along free-market lines, pitching its publications at 'second hand dealers' in ideas, like journalists, broadcasters and teachers, but without making such an enterprise obvious (Cockett, 1994 :131). Its website today describes its missions as being "...to improve public understanding of the fundamental institutions of a free society, with particular reference to the role of markets in solving economic and social problems" (http://www.iea.org.uk/about). In turn it has been a leading organisation in supporting other such think tanks, especially the Atlas Economic Research Foundation and the Centre for Research into Post Communist Economies.

This study looks at the role of the IEA in its early years and before the crises of the 1970s 'broke the back of the liberal order' (Frank, 2001:25). The neoliberal 'thought collective' was only just beginning to focus its attack on the Keynesian welfare state – rather than on planning in general and Soviet socialism in particular (Jackson, 2010; Tribe, 2009). The early publications of the IEA conform to the principles of the founding discussions of the MPS, that is reaffirmation of the priority of the price mechanism, free enterprise and competition (Plehwe 2009a). Much of its attention in its early years was directed at issues of pricing – for instance of agricultural products (it was against marketing boards) - and the retailing sector, so Yamey's pamphlet was part of a pattern[ii]. Slightly later it began to propose changes to the NHS and state education which are now being adopted (Muller, 1996).

By the 1950s the IEA was in a position to influence the peak business organisation in Britain, the forerunner of the CBI – the Federation of British Industry (FBI) - through Arthur Shenfield, one of the mainstays of the IEA. Arthur Shenfield was a regular attender at MPS meetings from the early 1950s. He had been influenced by Robbins and Hayek through the London and Cambridge Economics Society in the 1930s, and in 1954 gave two papers to the MPS – on *Democracy, Socialism and the Rule of Law* and on Trade Union legislation. His other publications argued for a radical reduction in taxation and state expenditure and criticised the NHS and the nationalised industries for their monopoly positions (Rollings, 2013). His views were therefore quite well known when he was appointed Economic Director of the FBI, a position he held until 1967, and one which involved drafting economic policy document and was the key source of economic advice for the Director and others in the CBI.

The abolition of RPM in 1964 was a significant moment in British economic history: it consolidated the growing dominance of multiple retailers, their dominance in the relationship with suppliers and the demise of independent retailers[iii]. The Resale Prices Act brought to an end an unusual period between 1956, when collective enforcement of manufacturers' resale prices was prohibited but manufacturers' ability to enforce their prices individually (IRPM) strengthened, and 1964 when the Resale Prices Act rendered the latter practice also illegal. The key effect of abolition of IRPM was to redistribute property rights over the resold article – proscribing manufacturers' ability to stipulate prices and conditions of resale: and this crucially changed the balance of economic power between the suppliers and retailers benefitting the latter, but specifically the multiples[iv].

A recent reassessment of the Act notes how IRPM was the glue in a variety of 'systems of provision' whereby manufacturers enlisted retailers in their marketing efforts and secured outlets and custom which supported longer production runs. At the same time smaller retailers were secured of margins which kept them in business against the multiples, and the multiples used secure margins as a basis for investment and physical expansion. The abolition of IRPM broke those networks. Instead, multiple retailers with an emphasis on intense price competition developed supply chain strategies with suppliers as dependent partners. Multiple retailers became enmeshed with the financial sector and property investment interests and this became the driving 'capital logic' of the strategies of corporate retailers (Clarke, 1996:291; Mercer, 2014). The absence of IRPM and a relatively light regulatory environment accounts for the early restructuring and intense concentration within the British retailing sector (Marsden and Wrigley, 1996; Marshall, 1995)

How did the IEA and specifically Yamey's pamphlet influence the course of events? The first clue is Arthur Shenfield's position within the FBI. In late 1959 the British Cabinet decided to revisit that section of the 1956 Restrictive Trade Practices Act which strengthened IRPM. The Act also outlawed all forms of price fixing. This situation meant that, while collective RPM agreements in some sectors of retailing disappeared – especially on a range of groceries – IRPM as a practice spread into new areas such as cigarettes and tobacco, electrical goods (Mercer, 2014; Mercer, 1995). Cabinet and official papers in 1959 noted in particular that the situation benefited the Co-ops because the boycott of the Co-op was banned allowing them access to goods, especially electrical goods that had previously been limited, while IRPM could allow overall increases in the dividend – the operating surplus redistributed to its consumer members[v]. The benefits to the Co-op were probably exaggerated as their share of the grocery market declined throughout the 1950s, but the point was part of the general lobbying by supermarkets, such as Tesco, Finefare and Jacksons against IRPM. The internal Board of Trade enquiry set up to advise on policy commented that: “It is unlikely that the controversy between co-ops and other retailers will be settled unless it is by the abolition of resale price maintenance”[vi]. The Cabinet made the decision to call an enquiry in February 1960, and this was quickly communicated to the FBI and a range of trade associations who were asked to assist in getting a questionnaire out to firms to aid the enquiry’s deliberations[vii]. Yamey’s pamphlet appeared quite shortly after this series of events[viii]. There is therefore circumstantial evidence that Yamey’s pamphlet was cognisant of Milton Friedman’s view that: “the actions that are taken depend on the ideas that are lying around”, and carefully placed free market ideas under the politicians’ noses.

The second mechanism was that the IEA and Yamey probably also knew, before battle commenced, who had to be persuaded and of what. When the issue of a possible ban was raised in official channels (before it went to Cabinet), the Treasury officials stated that, although they might personally favour such a ban, they could only support such legislation if it could be shown that abolition would help in the fight against incipient inflation. Yamey provided some perfect ammunition: that abolition would save the British consumer *£180m per year* if IRPM were abolished. He based this on studies of prices in free trade and ‘fair trade’ states in the US and on the effects of abolition in Canada in 1951, arguing that he would expect an average reduction in margins of 5%, and thence calculated the fall in prices on the affected goods (Yamey, 1960).

His figures were challenged in the reply to Yamey written by theOxford economist, P.W.S.Andrews and Frank Friday, a former economist for EMI (Andrews and Friday, 1960). Friday used alternative surveys for the US and found that Yamey’s average reduction in gross margins in Canada was based on the highest falls in margins. In the course of the Board of Trade enquiry other economists specifically cast doubt on the figure and evidence was submitted which showed the IRPM could keep prices down[ix]. Only one supporter of Yamey actually studied the movements in gross margins following abolition and his conclusions were ambiguous (Pickering, 1974). A paper of 1967 by the Statistics Division of the Board of Trade stated that to assess the effects of the Resale Prices Act *"requires knowledge both of the size of the reduction and of the proportions of goods sold at different prices, since different retailers have cut their prices of different lines at differing percentages and some have not been cut at all. Full information of this kind is not available"*[x]. Yamey himself backtracked later and argued that (Yamey 1966). The pamphlet itself was highly equivocal: it unleashed the annual £180m saving into the pubic domain, but actually contained a range of caveats including the assertion that any reduction in prices would be 'once and for all'. (Yamey, 1960: 15-16).

Nevertheless £180m acted as a charm and in newspapers and committees, and pulled the rug from under the feet of opponents of abolition. The Co-op, itself the object of a conspiracy to harm it, accepted the estimate. The National Association of British Manufacturers, a body which was eager to maintain IRPM, discussed what they could do and a member cited Yamey's figure rather ruefully, intimating that it would be difficult to persuade the public of their case if price reductions were to be promised[xi]. Hence, the IEA's project of ensuring their ideas hit home among 'second hand dealers' in ideas worked perfectly.

The third mechanism of influence was the amateurism of the British civil service which felt unable or unwilling to engage in the theoretical debate between Yamey and Andrews, and certainly unable to arbitrate. The arguments on Andrews' side were complex, perhaps the simpler, straightforward demand for 'natural' competition to be restored seemed the safer and more orthodox side to adopt.

Two key issues were at stake between the two men. Does IRPM maintain prices above what they might otherwise be – the 'otherwise' being a situation where retailers were allowed freely to determine their own prices in a world free of any other restrictions on price. Does IRPM undermine competition? Yamey's answer to both was 'yes', Andrews' answer to both was 'probably not'. To Yamey RPM (he made no distinction between collectively and individually maintained RPM) was a horizontal restriction, conceived by small shopkeepers as a means to safeguard them against price-cutting multiple retailers. To achieve that prices were set higher than they would otherwise be, new forms of retailing competition hence ‘shoppers’ choice’ were restricted.

Andrews argued, along with the trend of previous British research, that IRPM needed to be seen as a manufacturer’s marketing strategy,geared to ensuringsome certainty in the retail market to support investment in long run production runs. Fixed margins allowed retailers to provide services and stock a range of goods which in turn provided the basis for longer production runs even for smaller manufacturers Paradoxically, the margins allowed on popular brands by larger manufacturers so-called ‘bread-and-butter lines’, by providing a basic profit margin for small retailers, also allowed *smaller manufacturers* to maintain a presence in a range of retail outlets. He envisaged that with the abolition of IRPM, large price-cutting retailers would not bother with minor brands, as their profits would be made on the high turnover of well-known brands. Thus, IRPM sustained the thrust from a wide range of branded goods and ‘to the extent to which a general ban on rpm weakens the thrust from manufacturers’ brands, the whole competitiveness of retail trade will in the long run itself be weakened; such a ban... must itself reduce an important influence keeping prices in general down’ (Andrews and Friday, 1960:).

This analysis had great predictive power, prefiguring many of the developments in retailing following the abolition of IRPM. However, the Board of Trade set up paid Andrews absolutely no heed: indeed it took its lead from Yamey’s pamphlet, alternative views were sneered at, arguments in favour of continuing rpm were described as being poorly thought out and “emotional”[xii], and a misleading impression was given that in general economists, or in their words ‘respectable’ economists were agreed[xiii]. The report ignored any concept of IRPM as a manufacturers’ strategy and dismissed manufacturers’ detailed evidence of the importance of IRPM in their marketing strategies as ‘special pleading’[xiv]. Moreover, on the issue of the effect of abolition on small retailers and the promotion of powerful retailer monopolies, the report simply expressed a point of view: “We do not regard the fear of distributive monopolies as realistic’[xv].

The title of Yamey's pamphlet was 'Shoppers' choice' and he emphasised that manufacturer's stipulation of a uniform resale price denied housewives a choice as to where and how they shopped. The evidence that housewives demanded the right to shop around for the best price was missing – but the notion that they might wish to had a common sense appeal. It was an idea taken up willingly by newspapers, and superficially may have chimed with the climate of the early 1960s with a range of new products coming onto the market, and the thrill of supermarket shopping. Yamey was providing a clear-cut answer to a question on which economists were deeply divided and uncertain. Thus the IEA had successfully allowed the political elite to find the arguments needed to assert a specific policy and in so doing had promoted a core premise of neo-liberalism that the market and choice was the source of all human freedoms.

The fourth mechanism was the assiduous cultivation of links with the press and with leading politicians. By the early 1960s several key editors were in place who either met with or were members of the MPS and the IEA, such as Samuel Brittan at the *Financial Times*, Peter Jay at *The Times* and Maurice Green at the *Telegraph.* All these papers gave much publicity to Yamey's pamphlet and practically none to Andrews. Indeed, by the early 1970s 'the right- wing press broadly coalesced around neo-liberalism' (Jackson, 2012) and the early effects of the process can be seen in the events around the 1964 Act.

The fifth mechanism was the divided and diffuse nature of those who might have rallied in support of IRPM. In particular the leadership of the Co-op ignored the warnings of its Sales Departments which had begun to notice the benefits of the situation created by the 1956 Act, and "that the Movement would suffer severe competition and price-cutting if rpm were abolished"[xvi]. The end of IRPM on cigarettes, which represented 10% of their total sales, proved devastating, making any maintenance of the divi impossible [xvii]. The Co-op suffered a significant fall in market share after the 1964 Act – from 10.9% in 1961 to 7.1% in 1971, thus the government achieved what it had set out to do: protect multiple retailers from competition from the Co-ops.

Opposition might have come from the retailers and manufacturers who felt their interests threatened by abolition, but although an organisation was formed for that purpose it failed to gain any leverage. The obvious alliance with hindsight would have been between threatened retailers and the Co-op, but traditional hostilities held sway. British manufacturing interests have been characterised by a long-standing inability to present a united voice on industrial issues. Both national organisations – the Federation of British Industries and the National Union of Manufacturers - found their members divided and felt they could not make any intervention[xviii].

The sixth mechanism was that the ideas being promoted by the IEA had considerable 'natural' leverage within the upper echelons of the Conservative Party – that is precisely the political elites the IEA sought to influence. The 1964 Act created huge dissension within the Party leading to a major split during the vote in Parliament – comparable, it has been argued, to that over Suez. Small shopkeepers and businessmen were the traditional backbone of Conservatism and contributed greatly to its mass following of the time. However, by the late 1950s and 1960s change was afoot to disrupt old blocs and allegiances and foster new ones. World trade and overseas investment was expanding; industry was experiencing a renewed wave of merger and concentration; investor dependence on the 'old' industries was gone following nationalisation (except of course as beneficiaries of compensation payouts); the share of wages in national income was growing; the end of rationing and building controls allowed new patterns of consumption to develop. The adoption by the Conservative Party of ideas of 'modernisation' and efficiency as the new watchwords again played to make Yamey's viewpoint acceptable: it was the multiples who were efficient and that did not include the Co-op which was an object of ridicule.

This paper has identified the effects of agitation and propaganda against IRPM but is that evidence of the articulation of a set of business interests or simply the working through, in British intellectual liberal tradition, of a more doctrinaire approach towards markets? Anyone who dares tread in this terrain is open to the attack of crass reductionism, and much of the literature on neo-liberalism veers away from identifying business interests, preferring to argue that the role of think tanks was to teach businessmen what they should want. It is clear that the Act favoured multiple retailers especially through marginalising the Co-ops - a threatening area of competition and a form of enterprise incompatible with the free market system envisaged by the IEA. However, to what extent could this promotion of multiples be seen as conscious or deliberate shaping of the economic environment to serve a set of business interests? Within the IEA itself there has been an interesting debate as the cause of its unique position and success. One argument has been that US think tanks have been too narrowly focused on the immediate needs of funders and therefore not research centres but 'policy wonk shops': in contrast the IEA had more detached 'objective' research role. The challenge that free market think tanks face, urges one contributor to the debate, is "to find donors such as Fisher or the Liberty Fund's own Mr. Goodrich, who have a longer term focus" (Blundell, 2013c)

Nevertheless interesting pointers as to the vested interests emerge from this discussion. One of historians of the IEA states, 'It would be wrong to say that Arthur and Ralph (Arthur Seldon and Ralph Harris two early promoters of the IEA – author) were totally free of vested interests' (Blundell, 2013d) and goes on to make specific reference to the 1964 Act. He implies that the vested interests involved were multiple retailers and the advertising agencies whom Harris approached at an early stage for funding. We have already seen that advertisers expected to benefit from abolition, and gave evidence to the Board of Trade enquiry to that effect[xix]. Seldon had worked as an editor for *Store*, a trade journal for shop owners. It was possibly through this experience that he was able to target other sponsors such as 'Harris and Sheldon' a leading manufacturer of shop fittings which has since become principally a property investment company (Blundell, 2013a).

In the talk I will discuss further leads, especially the interests of the IEA's founder and owner of Buxted chickens in multiple retailing and the demise of the Co-op. The evidence suggests that it is possible for researchers on neo-liberal think tanks to think more boldly about the relationship between the advocacy of policy and business interests. While much of the funding and sources of support for the IEA may have simply conditioned the focus of its research, there are many, quite direct vested interests which can be explored for specific policy areas and the issue of abolition of IRPM, hailed as a great triumph by the IEA, is one of them.

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i For an extensive discussion of the theoretical debate between Yamey and Andrews see Mercer, H. (2013) 'The creation of the modern retail market: economic theory, business interests and economic policy-making in the evolution of the 1964 Resale Prices Act' paper presented at the Conference of the European Society for the History of Economic Thought.

ii Andrew Fisher himself was a pioneer of factory farming and a keen opponent of agricultural marketing boards.

iii Eg Marsden and Wrigley, 'Retailing': 34; Akehurst 'Concentration': 41; Marshall

iv Mercer 'Abolition'; Bolton *Small Firms*; Morelli 'Constructing a Balance'; Alexander 'Retail Development; Grant 'Manufacturer-Retailer relationships'; MMC *Discounts*; Morelli 'Constructing a balance'; Wrigley 'Antitrust'.

v TNA, BT258/990 Brief for the Economic Policy Committee "Resale Price Maintenance" 1st February 1960; TNA, CAB134/1684, EA(59)88, 'Resale price maintenance', 11th December 1959; TNA, CAB134/1686, EA(60)2 'RPM' 26th January 1960;

vi TNA, BT258/1187, 'Report on rpm' Appendix 9

vii Modern Record Centre, CBI Predecessor Archive , FBI, MSS200/F/3/S2/21/7 Minutes of the Trade Practices Committee, 12 February 1960.

viii Yamey was the obvious person to write on IRPM. He had made various contributions in the 1950s, arguing against RPM and promoting an unusual view of retailing as a sector in which competition should naturally obtain. He was closely associated with key figures on the free market right: he was a close associate of Peter Bauer, and a friend of Arnold Harberger and Arthur Seldon (another central figure in the IEA)
(Yamey link with Seldon (and reference to funding for IEA drawn from advertising industry) http://oll.libertyfund.org/pages/seldon-and-the-iea)

ix TNA BT258/1088 RPM(60) 8th, witness - J.B.Heath, 15 August 1960; evidence of the Association of Engineering Distributors, TNA BT258/ BT258/1088 RPM(60) Brief 20, 13 December 1960

x The National Archvices (TNA), PREM13/2038 Note by Statistics Division of the Board of Trade 22nd March 1967.

xi MRC,FBI, N/1/2/2 Minutes of the Executive Council 20.4.60
Co-operative Union archives, Minutes Central Executive Committee 13th December 1963.

xii TNA BT258/1187 'Report on RPM' para 23

xiii The Board of Trade report was especially misleading on this question. Under the heading 'Economists' views' it commented: 'The bulk of the opinion in favour of abolishing resale prices maintenance has been provided by economists; but they are supported by a minority of returns from individual traders and suppliers and by some independent opinion obtained by us orally. The independent opinion was on the whole more carefully thought out and less emotional than the general run of commercial arguments submitted in favour of continuing resale price maintenance'. TNA, BT258/1187 'Report on RPM' para 23

xiv TNA BT258/1088 RPM(60) Minute 11

xv TNA, BT 258/1187 'Report on RPM' para 110.

xvi Co-operative Union archives, Minutes Central Executive Committee 13th December 1963.

xvii Co-operative Union, *Trade Advisory Bulletin;* Co-operative Review 'No Back-Pedalling'

xviii Mercer *Competitive Order*

xix It might also be noted that newspapers might be expected to benefit from any benefit to advertisers, reinforcing any ideological adherence to a free market that some editors might espouse.